STABILITY *in* MILK MARKETS

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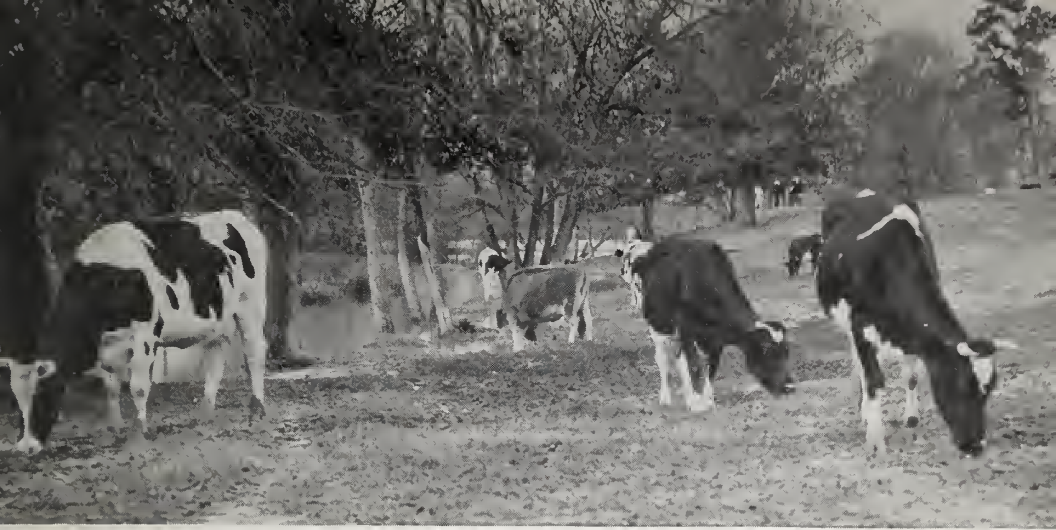


Stability in Milk Markets

The Goal of the Dairy Industry

New mechanisms have of necessity been developed to meet the complex conditions that have occurred in the dairy industry. These mechanisms are based upon the cooperative effort of farmers in the industry. They operate with the assistance of State and Federal Governments.

The day has passed when farmers milked their cows and delivered the milk, still warm, to homes in the nearby town. In a little less than two decades, a highly organized system has grown up for handling and distributing milk and its products between farmers and consumers. This was made necessary by the high concentration of population.

Stabilized conditions under which milk producers can sell their product have become the goal of the dairy industry. The story of the attempt to bring order out of chaos is the story of a growing cooperative relationship among dairymen generally.

Chaos has resulted during the transitional period from the simple "producer to consumer" method of distribution to the complex system involving intermediate handlers. At first, dairymen tried through their own efforts to reach the goal of a reasonable price and assurance of a fair share of the market. Then new and unstabilizing factors came into the economic picture of the dairy industry. Dairymen found their own efforts toward achieving stability

were not enough. They began to cast about for additional mechanisms to supplement their own efforts and extend the benefits already achieved through cooperatives. Today, milk control boards established by State laws and Federal authority provided for under the Agricultural Marketing Agreement Act of 1937 are the result.

The history of modern milk marketing is largely bound up with the history of milk distributing agencies as an integral part of the dairy industry, and reveals the efforts exerted by producers to adjust themselves to new marketing conditions.

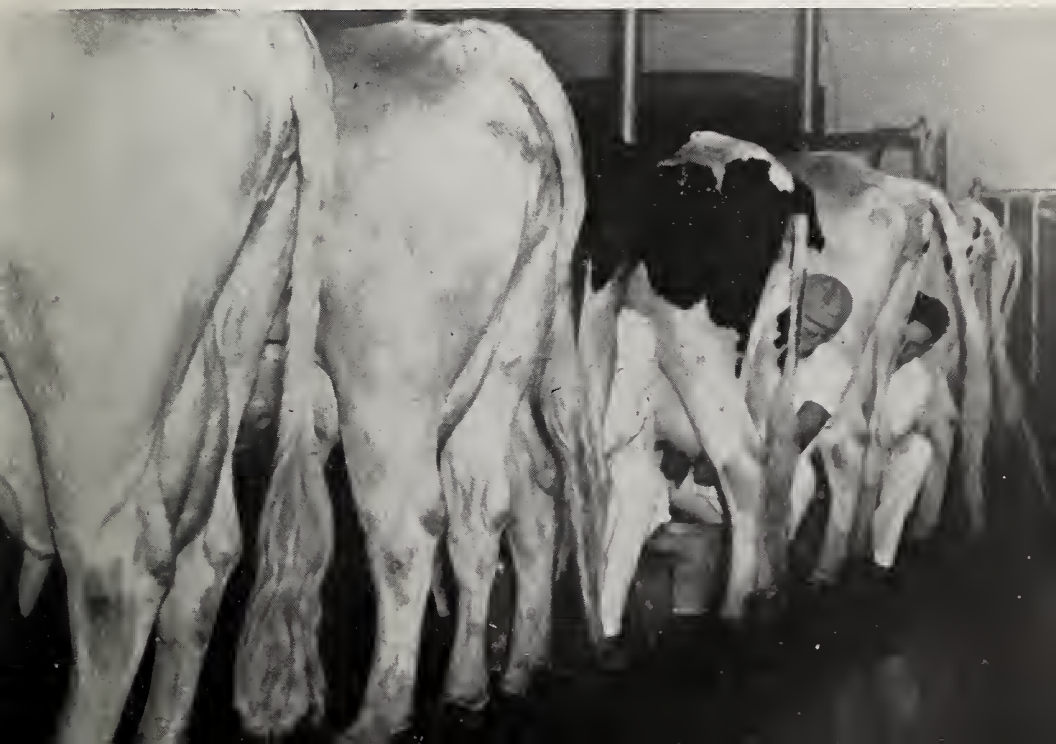
When large-scale milk distributing agencies came into the marketing field and replaced the farmer-to-consumer method of selling milk, producers found themselves at a distinct bargaining disadvantage. Dairymen discovered that the distributors were in a dominant bargaining position: They could play milk producers against one another and frequently could dictate their own terms. A few gigantic corporations interlocked with numerous holding companies and large-scale independent operators came into control of a large part of the business of distribution. Dairymen found that individual efforts to better conditions were almost hopeless in the face of the corporate power confronting them.

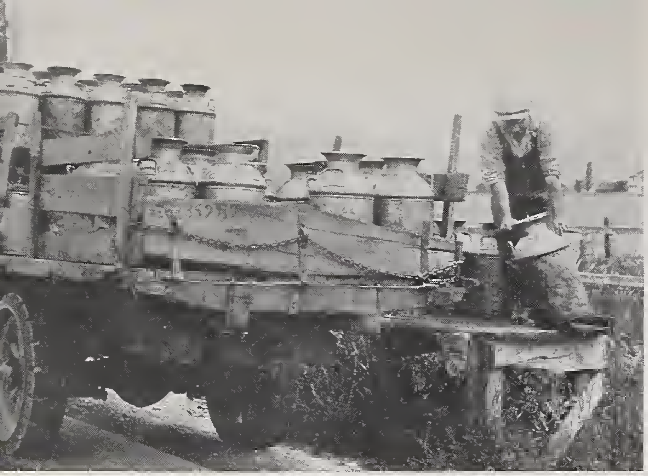
To meet this situation, dairymen formed bargaining cooperatives through which they negotiated with distributors for fair prices. In this way, bargaining between farmers on one hand and distributors on the other became the typical pattern of the dairy industry.

As a result of their efforts toward organized selling, dairymen enjoyed a comparatively large degree of stability in milk marketing. Experience has plainly shown a majority of milk producers and distributors to be in favor of a constructive milk-marketing program. But in spite of this majority approval, it has repeatedly been possible during critical periods for some groups to wreck the stabilized market structure built up through cooperative effort.

The differences between these groups in the milk-marketing field came to a head during the recent depression. Reduced consumer purchasing power lowered the demand for milk, while production continued at high levels.

The depression brought a market collapse, a downward price spiral, and a growing unemployment. It sharpened competition and created confusion which tended to nullify what stability had already been achieved. The "normal" petty chiseling and unfair practices became constantly more unsettling to the industry as a whole. Unwarranted price cutting, lengthy price wars, and other forms of destructive competition brought chaos to many markets. To the burden of depression was added the burden of increasing instability.





Such conditions threatened to result ultimately in a shortage of fluid milk. Some producers whose milk was needed to supply the normal market were surely and certainly being forced out of business.

Producer groups, established to sell their members' products in an orderly manner, were no longer able to maintain an orderly market situation. Under previous conditions they had been quite effective in looking after the interests of their membership. But against the forces aggravated by the depression, these organizations found it vastly more difficult to perform their accustomed function of maintaining orderly marketing processes.

Dairymen Supplement Own Efforts

Dairymen themselves soon realized that such chaotic marketing conditions could not continue. No farmer can long stay in the business of producing milk and meet modern sanitary and health requirements if the price he receives is not high enough to cover costs. The leaders of the industry concluded there was acute need for some additional device to aid in determining market prices.

They looked to Government for this device.

One result was State enactment of legislation setting up State milk-control boards. Another result was the inclusion of milk and its products under the marketing provisions of the Agricultural Adjustment Act. These provisions, designed to relieve chaotic marketing conditions, continued to function even after the Supreme Court declared the production-control features of the act to be unconstitutional. The marketing provisions had been distinctly separated from the other provisions under the terms of the act itself, and dairymen thus were able to continue orderly marketing under the processes they had put into operation.

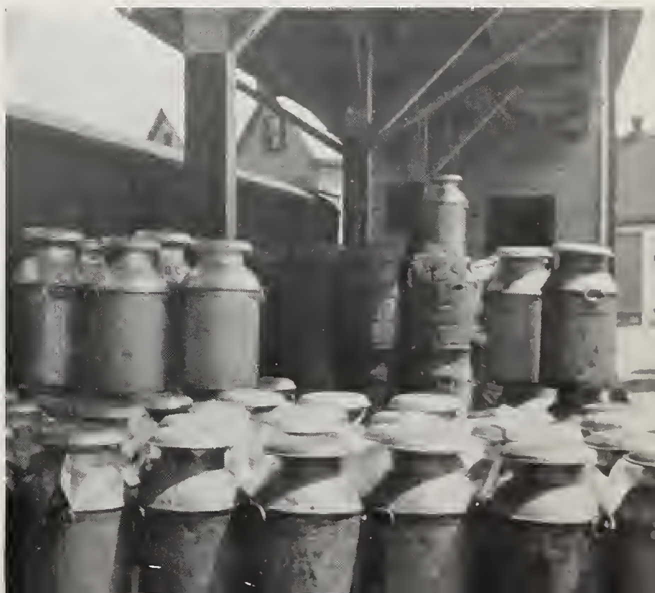
Efforts toward stabilization were relatively successful until the marketing provisions of the act were invalidated in one area by a Federal district court, on the ground that these provisions were inseparable from the rest of the act, and were therefore affected by the Supreme Court's decision on production control. Dairymen were left to manage as best they could with a market in more than usual turmoil. Though this decision was later reversed by a higher court, the reversal did not come until after dairymen had begun to take further action.

Producers saw that they could not yet solve their problem without additional mechanism. In response to requests from dairymen and representatives of other farmers, Congress passed the Agricultural Marketing Agreement Act of 1937, and dairymen once more had an effective tool to aid in stabilization.

Agreements and Orders

Under the provisions of the Marketing Agreement Act, the Secretary of Agriculture is empowered to enter into marketing agreements with processors, producers, associations of producers, and others engaged in the handling of agricultural products. In addition, he is authorized to issue orders applicable to handlers of specified agricultural commodities, including milk and its products. These orders embody provisions contained in the agreements and the terms which orders may contain are specifically controlled by the provisions of the act.

The act limits the application of marketing agreements and orders to such handling as is in the current of interstate or foreign commerce, or as directly burdens, obstructs, or affects interstate or foreign commerce. In many markets, therefore, it is desirable to relate Federal and State programs to be completely effective.



Hearings and Arbitration Provided For

Marketing agreements and orders are issued only after a public hearing with due notice and opportunity for interested parties to appear. The agreements and orders provide for a marketing plan developed in cooperation with representatives of milk producers and distributors in keeping with the needs of the marketing area concerned. The proposed program may be modified in the light of testimony presented at the hearing. Administration of the program is through a market administrator designated by the Secretary of Agriculture.

As an entirely new feature, the act in addition provides under certain conditions additional machinery for mediation and arbitration of disputes arising out of the marketing of milk in a particular region. The Secretary of Agriculture, upon the request of any cooperative association of milk producers, may mediate, and with the approval of all parties may arbitrate, disputes between the cooperative and the handlers of milk. This arrangement is calculated to assist in avoiding the violence sometimes created by unstable conditions.

Producer Approval Necessary

A marketing agreement, when issued by the Secretary of Agriculture, applies only to those handlers who sign it. To make the program applicable to all handlers within the marketing area and therefore more effective, it usually is necessary to issue an order which regulates the handling of the milk in the same manner as does the agreement. An agreement supplemented by an order is limited to those provisions and standards specified for orders in the act.

Before a marketing agreement and order can become effective, the agreement must have been signed by handlers of at least 50 percent of the volume of milk in the marketing area, and the Secretary of Agriculture must determine that two-thirds of the producers by number, or producers of two-thirds of the volume of milk, favor the issuance of the order. The Marketing Agreement

Act authorizes a referendum for the purpose of enabling the Secretary to determine producer approval.

If handlers of 50 percent of the volume of milk in a marketing area do not sign the agreement, an order may be put into effect with the approval of the President:

1. If this action is favored by two-thirds of the producers by number or volume of milk produced.
2. If the noncompliance of the handlers would tend to prevent achieving the purpose of the Marketing Agreement Act.
3. If such action is the only practical means to advance the interest of the producers.

Producers Seek Betterment

The chief purpose of a marketing agreement program is to stabilize the conditions under which milk is sold. Stabilization measures are based upon adequate regulation of the commodity in the current of interstate commerce.

The Marketing Agreement Act recognizes that disrupting the orderly exchange of commodities in interstate commerce impairs the purchasing power of farmers and destroys the value of agricultural assets which support the national credit structure. It is important to the public interest, therefore, that a stable and evenly balanced flow of agricultural products to market be maintained. As far as dairymen are concerned, this is practically the same objective which cooperative milk-marketing associations have sought ever since their organization.

The primary factor in a stabilized market is a stabilized price. Producers are entitled to and must have a fair share of the final price that consumers pay. This means increased income and greater purchasing power in the hands of the farmer. Stable markets mean benefits to both farmers and consumers.

The Marketing Agreement Act provides that the Secretary of Agriculture, in establishing producer prices, shall be guided by the price which is equivalent in purchasing power to that of a "base period." The base set for milk is the pre-war period, August 1909–July 1914. If the purchasing power during this base period cannot be satisfactorily determined through statistics available to the Department of Agriculture, an alternative post-war base period is set up as August 1919–July 1929, or any part of this

period for which purchasing power can be determined. But if the Secretary finds that these ascertained prices are not reasonable in view of the price and available supply of feeds, and other factors affecting economic conditions, he is required to fix such prices to milk producers as will reflect these conditions, insure a sufficient quantity of pure and wholesome milk, and be in the public interest.

Use-Classifications

Distributors who buy milk from producers under a marketing-agreement program must pay, as a minimum, a stipulated price according to the use to which the milk is put. This price, under the provision of the plan, may be changed as milk supply and demand warrant.

Milk for fluid consumption, generally designated in markets as class I milk, usually costs more to produce and bring to market than does milk produced for use in other forms; hence it usually carries the highest market value.

Milk in excess of the class I or actual fluid milk sales requirements of the market may be sold in the form of cream. This portion of the milk used for cream, usually designated as class II milk, although equally costly to produce, generally is brought to market as cream at lower cost than if it were brought to the market as milk, hence it usually commands a lower f. o. b. market value than class I milk.

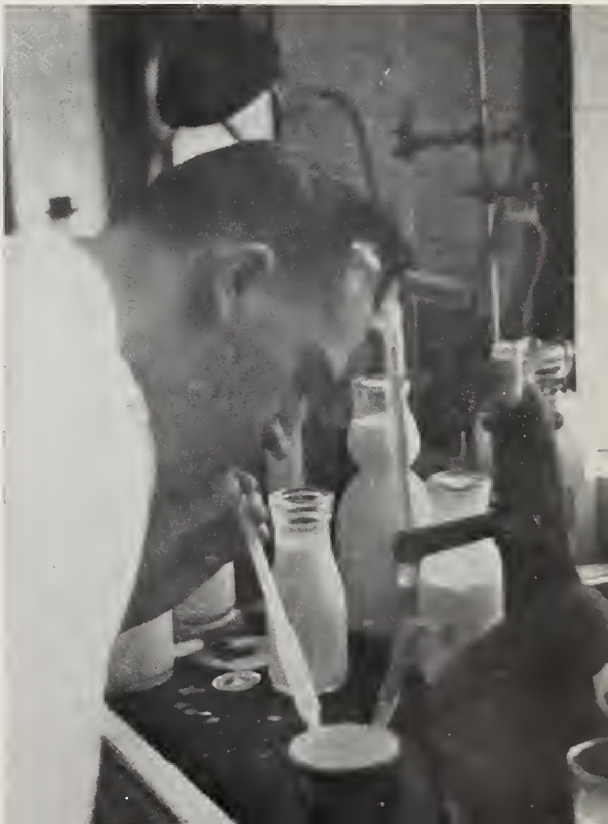
Milk in excess of class I and class II needs of the market is sold for use in the form of manufactured dairy products such as ice cream, evaporated milk, butter, cheese, etc. Prices for these prod-

ucts are determined in part by national supply and demand conditions, hence the prices set for excess milk are related directly to the market price of manufactured dairy products, usually butter. Such milk is designated under other classes, depending upon the number of use-classifications in the market.

Establishment of a price which producers must receive for their product gives recognition to the fact that milk markets are stabilized only when the cost of milk is uniform among all distributors. Uniform buying prices for a commodity like milk tend to improve competitive relations in the marketing area. It is a major step toward the protection of farmers' milk markets against chaotic and drastically reduced prices, and tends generally to maintain milk producers' prices on as high a level as is consistent with prevailing supply and demand conditions.

Interests of Producers Guarded

In addition to strengthening farmers' prices for milk, other supplementary steps may be taken to increase the income of the dairymen supplying a milk-marketing area. Such steps may be the adjustment of freight-rate overcharges or questionable country-station and terminal charges, if they exist; the protection of producers against failure or neglect of distributors to pay them for milk; the checking of tests and weights of milk sold to distributors; the verifying of accuracy of payments made to producers; and the prohibition of unfair competition and unfair trade practices.



The Marketing Agreement Act also provides a definite function for

producers' cooperative marketing associations in rendering services for advancing the interests of member-producers.

Returns Prorated

Proper prorating among producers of the proceeds from sales to distributors is another objective of milk marketing agreements and orders. This is accomplished by pooling producers' sales, either through a market-wide pool or an individual-distributor pool, depending upon the choice of the dairymen in the area. Both methods are provided for in the Marketing Agreement Act.

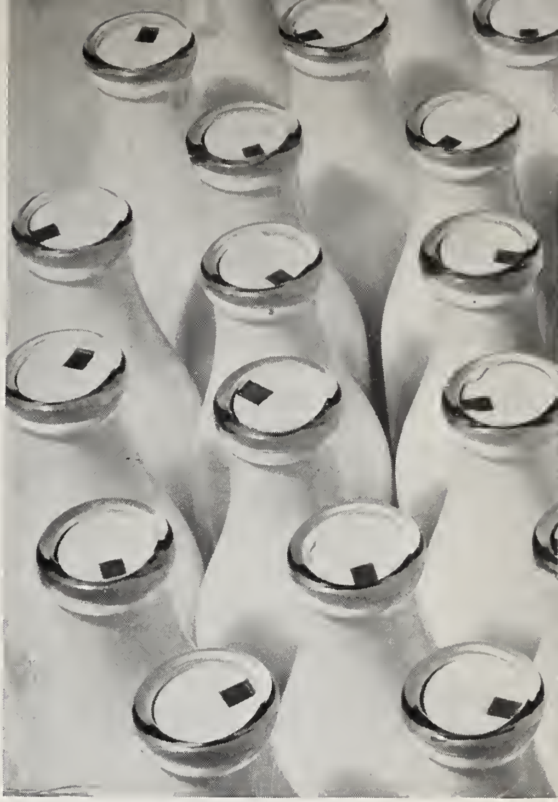
The Market-Wide Pool Arrangement

Under the market-wide pool plan, the total quantity of milk sold by all producers to all distributors in the market is pooled, and each producer is paid according to the amount of milk he has sold, regardless of the use made of this milk by the individual distributor to whom it was sold.

The rate of payment is based upon the proceeds from the sale of all distributors on the market. The same level of prices is thus established for all producers supplying the market as a whole and the burden of surplus milk is equalized among all producers in the market.

The pool is computed from reports for each delivery period. Distributors are required to make these reports to the market administrator. For example, in one market two classifications of milk may be established for determining payments to producers, class I milk being all milk sold as whole milk, chocolate milk, or flavored milk, and class II milk being milk disposed of for other uses, including cream.

The total value of all milk delivered to all handlers for sale in the marketing area would be calculated by the



market administrator on the use basis for each class of milk at the prescribed price. Payments to producers would be made on the basis of a so-called "blended price" which represents a blend of the value of both classes of milk and accordingly is less than the class I price but more than the class II price. This "blended price" is paid uniformly to all producers, except for certain location and quality differentials which may be provided for under the program.

So that the cost of milk to all handlers in the marketing area may be the same, and so that producers may receive uniform returns from their milk, provision is made for a clearing arrangement through "equalization" payments. Under this arrangement each handler with relatively large class I sales is required to pay to the market administrator the difference between the blended price and the actual computed use value of the milk for that handler.

Handlers whose milk has a computed use value less than the blended price receive from the market administrator and pay to their producers the difference between these two amounts. Funds paid to the market administrator under the clearing arrangement are paid out so that all producers selling milk in the marketing area receive uniform returns for all milk delivered.

In accordance with the terms of the Marketing Agreement Act, the market-wide pool plan may be incorporated in an order which the Secretary has determined is approved by two-thirds of the producers by number or by volume of milk produced.

The Individual-Distributor Pool Arrangement

If the individual-distributor pool plan is incorporated in an order, three-fourths of the producers by number or volume of milk produced must approve this provision.

Under the individual-distributor pool plan, the total volume of milk sold to an individual distributor by the producers who supply him is pooled. Thus, each distributor has his own pool.

Through the individual-distributor pool plan, the burden of carrying surplus is equalized among all producers who supply a given distributor with milk. All of the producers selling to one distributor receive the same pool price, but this price may be higher or lower than the pool prices of other distributors, depending upon the uses of the milk handled by the individual distributors.

The market administrator computes each distributor's pool price from delivery period reports submitted to him, and notifies each distributor of his pool price which also is publicly announced.

Equitable Sharing

Under either pool plan the act provides for appropriate methods for equitably apportioning among dairymen the class I or fluid milk market as well as the burden of excess milk in the market. Thus each producer is assured his fair share of the market for fluid milk sold in the sales area. Each producer may be given an allotment which represents his share of the fluid milk market. This share, ordinarily called the producer's "base" or "rating," is usually based upon the volume produced by him in a previous period. Such milk will be paid for at the price representing the weighted average value of milk other than excess milk. A new producer may sell milk in the sales area, but during his first 2 months in the market payments to him will be at the established price for the lowest use-classification of milk sold in the market.

Coordination With States

In those States where interstate commerce in milk is involved, Governors, representatives of State milk control boards, and milk producers have found that, working alone and independently, they cannot cope with the innumerable problems which arise because

of the interstate character of portions of the dairy industry. As a result, they came to the conclusion that coordination of milk-control activities of the States and of the Federal Government was essential for effective handling of these problems.

The Marketing Agreement Act makes it possible for the Secretary of Agriculture to work with the duly constituted authorities of any State in the effort to obtain uniformity in the formulation, administration, and enforcement of Federal and State milk programs.

The Department of Agriculture desires at all times to work in cooperation with State agencies. The Secretary of Agriculture may confer with, and hold joint hearings with, State milk-control officials. He may utilize, with the consent of the State, such State and local officers and employees as may be helpful, and he may avail himself of the records and facilities of State authorities. Subject to certain provisions of the act, the Secretary may issue orders complementary to orders or other regulations issued by State milk-control authorities. Records and facilities of the Department of Agriculture may be made available to the State authorities.

The plan of operation outlined by Congress is not designed to contradict or supersede orders and programs of State milk-control boards. But where possible, it is designed to coordinate the activities of State authorities insofar as interstate relationships affect the vital problem of stabilized markets for milk producers.